DUKE ENERGY OHIO, INC.

FRR PLAN

AND 2013-14 DELIVERY PERIODS

INSTRUCTIONS FOR LOAD SERVING ENTITIES

AND 2013-14 DELIVERY PERIODS
Capitalized terms used herein but not otherwise defined herein have the meanings given them in the Agreement between Duke Energy Ohio and each Participating LSE (the “Capacity Payment Agreement”), the form of which will be available on PJM’s integration website. To the extent such terms are not defined herein or in the Capacity Payment Agreement, such terms will have the definitions set forth in the PJM Agreements. To the extent the definitions in the PJM Agreements conflict, the definitions to be used herein shall be from first, the PJM RAA, second, the PJM Operating Agreement, and third, the PJM OATT.

ARTICLE 1: INTRODUCTION

1.1 OVERVIEW

1.1.1 FERC has granted initial authorization, subject to future filings, for the Duke Zone to integrate into the PJM Balancing Authority effective as of January 1, 2012.

1.1.2 Upon integration, as of January 1, 2012, all LSEs in the Duke Zone must satisfy PJM’s capacity requirements. These requirements are described in the PJM RAA and the PJM Manuals. As described in the PJM RAA and PJM Manuals, the general practice is for PJM to procure and administer the capacity required for each LSE and for each LSE through PJM’s Reliability Pricing Model (RPM) to pay the costs for PJM’s procurement and administration of the RPM capacity requirement.

1.1.3 Because PJM’s RPM Base Residual Auctions for capacity have already occurred for the 2011-12, 2012-13, and 2013-14 Delivery Years (each, a “Delivery Year”), another process is needed to procure the Capacity Requirement during the January 1, 2012 through May 31, 2012 portion of
the 2011-12 Delivery Year, the 2012-13 Delivery Year, and the 2013-14 Delivery Year (each a “Delivery Period”).

1.1.4 Duke Energy Ohio will administer an out-of-time FRR Plan, which will govern the Capacity Requirements for the Duke Zone during the Delivery Periods, except that eligible LSEs may elect to implement an Independent FRR Plan as described more fully in the FRR Plan filing in FERC docket No. ER10-2254 and the October 21, 2010 FERC order in that docket.

1.1.5 The FRR Plan applies only to the above-identified Delivery Periods, and these instructions apply only to the FRR Plan.

1.1.6 For each Delivery Period, PJM will calculate the Capacity Requirement for the Duke Zone using the methodology described in the PJM Agreements. PJM will calculate the Preliminary Capacity Requirement prior to the FRR procurement process and then will update such Capacity Requirement prior to commencement of each Delivery Year.

1.1.7 Duke Energy Ohio will procure the Capacity Requirements for the Duke Zone for the Delivery Period through self supply and bilateral agreements.

1.1.8 The price paid by each LSE for Capacity procured on its behalf will be the PJM Final Zonal Capacity Price for the unconstrained region in PJM\(^1\). Duke Energy Ohio will procure and manage all of the Capacity Requirement associated with each LSE in the Duke Zone unless any such LSE opts out or presents an Independent FRR Plan as described in Section 4.3. Each LSE that does not submit an Independent FRR Plan must execute the Capacity Payment Agreement. The Capacity Payment

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\(^1\) Duke Energy Ohio retains its statutory right to seek FERC authorization for alternative pricing.
Agreement provides the terms and conditions pursuant to which such LSE will pay Duke Energy Ohio to satisfy the Capacity Requirement associated with such affected LSE’s load.

1.1.9 This document is provided for background guidance only. The terms and conditions that govern for any LSE in the Duke Zone will be as described in the FERC Order and in the Capacity Payment Agreement that are described herein.
ARTICLE 2: SCHEDULE OF EVENTS AND DEADLINES

<table>
<thead>
<tr>
<th>Date</th>
<th>Events and Deadlines</th>
</tr>
</thead>
<tbody>
<tr>
<td>September, 2010 -</td>
<td>Additional meetings between PJM, Duke Energy Ohio and LSEs as needed.</td>
</tr>
<tr>
<td>May, 2011</td>
<td></td>
</tr>
<tr>
<td>January 2011</td>
<td>Duke Energy Ohio to send letter to all LSEs in the Duke Zone, providing information about the FRR Plan and the LSEs’ Capacity obligations.</td>
</tr>
<tr>
<td>March 31, 2011</td>
<td>Deadline for LSEs to submit a Notice of Intent to Opt-Out or a Notice of Intent to Submit an Independent FRR Plan. A separate notice is required for each</td>
</tr>
<tr>
<td></td>
<td>Delivery Period, but the deadline for submitting notice for all three Delivery Periods is this date.</td>
</tr>
<tr>
<td>March 31, 2011</td>
<td>Deadline for all LSEs that do not intend to have an Independent FRR Plan to execute the Capacity Payment Agreement.</td>
</tr>
<tr>
<td>March 31, 2011</td>
<td>Deadline for Independent FRR LSEs to demonstrate to PJM that such LSEs satisfy all of the requirements set forth in Section 4.3.7</td>
</tr>
<tr>
<td>December 15, 2011</td>
<td>Deadline for Independent FRR LSEs to submit Capacity Resource Plan to PJM through PJM’s eRPM system.</td>
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ARTICLE 3: INFORMATION AND COMMUNICATIONS

3.1 INFORMATION PROVIDED FOR LSEs

3.1.1 Information related to the FRR Plan is available on the Duke Integration page of the PJM Internet website (http://www.pjm.com/markets-and-operations/market-integration/duke.aspx). Each LSE should check the website frequently to ensure that it has the latest documentation and information.
3.2 COMMUNICATIONS

Duke Energy encourages questions as a means of resolving any uncertainty regarding the FRR Plan. LSEs may submit questions or other communications in connection with these Instructions for Load Serving Entities to the following:

Duke Energy
Duke Energy Ohio Integration c/o Bill Greene
139 East 4th Street
Cincinnati, OH 45202
Phone: 513-419-5344
Bill.Greene@duke-energy.com

and

PJM Interconnection
Duke Energy Ohio Integration c/o Jeff Bastian
955 Jefferson Avenue
Norristown, PA 19403
Phone: 610-666-8847
rpm_hotline@pjm.com

ARTICLE 4: INSTRUCTIONS

4.1 CALCULATION OF CAPACITY REQUIREMENT

By January 31, 2011 PJM will calculate a Final Capacity requirement for the 2011-12 Delivery Year and a Preliminary Capacity Requirement for the 2012-13 and 2013-14 Delivery Years. Duke Energy Ohio will forward the Capacity Requirement calculations for each LSE that serves load to the affected wholesale LSE by a separate letter. LSEs that serve wholesale load will utilize the Capacity Requirement calculations as the basis for deciding whether to keep their respective loads in the Duke Energy Ohio FRR Plan, or to obtain an Independent FRR Plan. A similar process will exist for Certified Retail Electric Suppliers (CRES) serving load in the Duke Zone. In early 2011 CRES entities will receive
a reliability requirement for 2011 – 2012 based on the aggregated 2010 Peak Load Contributions of their customers as of December 31, 2010, scaled up to cause the sum of all capacity requirements in the zone to be equal to the total Capacity Requirement as calculated by PJM (the “maximum opt-out amount”). While the actual reliability requirement may vary from the maximum opt-out amount, the maximum opt-out amount will remain fixed. A CRES load will not have the opportunity to increase the resources serving their obligation since Capacity resources to serve the switched demand will have already been procured through the Duke Energy Ohio FRR Plan prior to integration into PJM.

4.1.1

By no later than the 31st day of January that immediately precedes the commencement of each Delivery Period, PJM will update the load forecast for the Duke Zone to obtain the final Capacity Requirement for the Duke Zone for the applicable 2012-13, or 2013-2014 Delivery Years. The reliability requirement for the 2011-12 Delivery Year will be the final requirement. If the Duke Energy zonal load forecast increases, PJM will increase the preliminary Capacity Requirement to obtain the final Capacity Requirement for the 2012-13 and the 2013-14 Delivery Years. CRES Suppliers that opt-out will not be required to do anything and any increase or decrease in their reliability requirement for the opted out quantity will be captured through the FRR plan and the FRR LSE Reliability Charge. Example – if a CRES supplier has a reliability requirement of 100 MW and they provide 100 MWs of capacity to PJM then on January 31st their
reliability requirement increases to 105 MWs, the CRES supplier will pay the FRR LSE Reliability Charge for 5 MWs.

Similarly, if the CRES supplier opts out 100 MWs of load and the reliability requirement increases to 125 MWs because the CRES supplier has increased their customer base by 25%, then the CRES supplier will pay Duke Energy Ohio for 25 MWs through the FRR LSE Reliability Charge.

Conversely, if the CRES supplier opts out 100 MWs of load and the reliability requirement decreases to 75 MWs because the CRES supplier has decreased their customer base by 25%, then the CRES supplier will receive a credit from Duke Energy Ohio for 25 MWs at the Final Zonal Capacity Price through the FRR LSE Reliability Charge.

4.2 CAPACITY PAYMENT AGREEMENT

4.2.1 Each LSE that has any load included in the FRR Plan will pay the Duke Energy Ohio costs and expenses for procuring and managing the Capacity Requirement associated with such LSE’s load for the relevant Delivery Year. The terms and conditions associated with this requirement are described in the Capacity Payment Agreement. All LSEs except for LSEs that serve wholesale load in the Duke Zone and elect to submit an independent FRR Plan to PJM will execute the Capacity Payment Agreement by no later than 4:30 p.m. prevailing Eastern Time on March 31, 2011.
4.3 ELECTION TO “OPT-OUT” OF THE FRR PLAN OR INDEPENDENT FRR

4.3.1 Each CRES LSE in the Duke Zone, including Duke Energy Affiliates, may elect to opt-out of the FRR Plan for one or all Delivery Periods, for all or a portion of its reliability requirement up to the maximum opt-out amount. Each CRES LSE electing to opt-out a portion of its Total Capacity Obligation must provide to Duke Energy Ohio a Notice of Intent to Opt-Out for each Delivery Period for which it elects to opt-out, in the form attached hereto as Appendix 1, by March 31, 2011. March 31, 2011 is the deadline for any opt out notice for each of the three Delivery Periods.

A CRES LSE that opts-out a portion of its Total Capacity Obligation assumes all the risks of its election to opt-out, and indemnifies Duke Energy Ohio for any associated risks, and neither Duke Energy Ohio nor any other party have any responsibility to such LSE or for any obligation of such LSE to any suppliers of Capacity Resources identified in the LSE’s Resource Plan. To the extent that PJM assesses Peak Hour Performance Penalties, Deficiency Penalties or any other type of performance penalty in connection with the LSE’s resources, payment of such penalties shall be the sole responsibility of the LSE and is a commitment solely to PJM. LSEs will also be responsible to PJM for all RPM credit requirements related to the commitment of planned capacity resources or external capacity resources without firm transmission service, as described in Section 4.8 of PJM Manual 18.
4.3.2 Each LSE that elects to opt-out a portion of its Total Capacity Obligation must submit to both Duke Energy Ohio and PJM a Resource Plan for each Delivery Year for which it elects to opt-out and meet all PJM credit requirements related to committed capacity resources by March 31, 2011.

4.3.3 Each LSE may elect to opt-out from the FRR Plan for all or only a portion of its total load (as measured as of December 31, 2010). Regardless of whether it elects to opt-out all or only a portion of its total load, the LSE will be obligated to execute the Capacity Payment Agreement with regard to its opted-out load, if applicable, and its additional load that may be added in the future to the respective opt-out entity’s load through load switching, and in accordance with, and by the deadlines set forth, in these LSE Instructions.

4.3.4 **Resource Plan.** Submission of the resource plan that satisfies the Actual Opt-Out Amount is required by March 31, 2011 for each of the three Delivery Periods. PJM will contact LSEs submitting a resource plan with further requirements.

4.3.5 The following conditions must be fully satisfied in order for the LSE to opt out:

1. The LSE and Duke Energy Ohio must enter into the Resource Plan specifying the Actual Opt-Out Amount for each affected Delivery Year.

2. PJM reduces DEO’s Capacity procurement requirement by the Actual Opt-Out Amount for each affected Delivery Year.

3. PJM and Duke Energy Ohio agree in writing that removal of the affected LSE’s Actual Opt-Out Amount from Duke Energy Ohio FRR Plan is irrevocable, and that Duke Energy Ohio shall not have any obligation, responsibility or liability for procuring, administering or providing Capacity or any Capacity requirement associated with such LSE’s Actual Opt-Out Amount in the Duke Zone during the affected Delivery Years.
4.3.6 **INDEPENDENT FRR PLAN**

4.3.7 PJM advises Duke Energy Ohio that PJM and any Duke Zone LSE that serves wholesale load (other than Duke Energy Ohio) whose load is fully metered and meets all other requirements in Section 8.1 of the PJM RAA may enter into an Independent FRR Plan for the January 1, 2012 – May 31, 2012, 2012-13 and 2013-14 Delivery Periods. LSEs that serve wholesale load that wish to pursue this option must deliver to Duke Energy Ohio a Notice of Intent to Submit an Independent FRR Plan, in the form of Appendix 2, by March 31, 2011. By no later than December 15, 2011, such LSE that serves wholesale load will deliver to PJM a final Independent FRR Plan and meet all PJM credit requirements related to the capacity resources committed in the plan.

4.3.8 LSEs that are not able to satisfy all of the following obligations by 4:30 p.m. prevailing Eastern Time on March 31, 2011 will be obligated to participate in the FRR Plan and such LSE will be required to execute the Capacity Payment Agreement as described in Section 4.2. The following conditions must be fully satisfied in order for an Independent LSE to have an Independent FRR Plan:

1. PJM reduces the Capacity procurement requirement for the Duke Energy Ohio FRR Plan by the full amount of the LSE’s capacity obligation for all of the Delivery Years.

2. PJM and such LSE each certify in writing to Duke Energy Ohio that agreement has been reached between PJM and such LSE regarding satisfaction of the LSE’s Capacity Requirement for the Delivery Years.

3. PJM and Duke Energy Ohio agree in writing that removal of the affected LSE’s load from Duke Energy Ohio FRR Plan is irrevocable, and that Duke Energy Ohio shall not have any obligation, responsibility or liability
whatsoever for procuring, administering or providing Capacity or any Capacity requirement associated with such LSE’s loads in the Duke Zone during the Delivery Years.

ARTICLE 5: BILLING AND SETTLEMENT

5.1.1 Billing and settlement will be administered by PJM in accordance with the “Duke FRR Plan Settlement Approach” document which will be posted by PJM on its website.
APPENDIX 1
FORM OF NOTICE TO OPT-OUT

To: Duke Energy Ohio, Inc.

Re: Notice to Opt-Out of the FRR Plan for [2011-2012] [2012-13] [2013-14] Delivery Year

I, as an authorized representative of the undersigned, hereby notify you that [LSE] has elected to opt-out of the Capacity procurement process that is part of Duke Energy Ohio’s FRR Plan. The amount that [LSE] has elected to opt-out for Delivery Year [ ] is [amount up to maximum opt-out amount].

[LSE] will provide you and PJM with its Resource Plan, demonstrating [LSE] owns or has the contractual authority to control the output or load reduction capability of any Capacity Resource listed in its Resource Plan, in an amount that is at least equal to the Actual Opt-Out Amount for the [2011-2012][2012-2013][2013-14] Delivery Year, by no later than March 31, 2011. [LSE] hereby agrees not to transfer such ownership or contractual authority to another entity during the [2011-2012][2012-2013][2013-14] Delivery Year.

The following authorized representatives of [LSE] will be available to meet with you at your convenience to discuss the Resource Plan and to provide any other information you request in connection therewith: [Authorized Representatives and contact information].

All communications regarding credit may be addressed to the Credit Representative designated by [LSE] in the Credit Representative Form attached hereto as Annex A.

All other communications may be addressed to:
[Contact name and contact information]

[LSE] hereby agrees to execute the Capacity Payment Agreement between Duke Energy Ohio and each LSE for the [2011-2012][2012-2013][2013-14] Delivery Year and provide the performance assurance described therein no later than May 1, 2011 if authorized by Duke Energy Ohio to opt-out of its Capacity procurement process for such Delivery Year.

This notice is the Notice of Intent to Opt-Out (as such term is defined in the Instructions for Load Serving Entities). [LSE] hereby acknowledges and agrees that delivery of this notice does not obligate or require any or all of Duke Energy Ohio to authorize [LSE] to opt-out of the Duke Energy Ohio Capacity procurement process.

[LSE]
By: _________________________
Name: _______________________
Title: _______________________

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ANNEX A TO APPENDIX 1
CREDIT REPRESENTATIVE FORM

The Credit Representative is the LSE’s in-house credit representative who can answer questions or provide information to Duke Energy Ohio about the LSE’s credit requirements in the Capacity Payment Agreement if the LSE does not elect to opt-out of the FRR Plan.

Last Name

Given Name(s)

Mr/Mrs/Ms/Dr/(other)

Title

LSE Name

Street Address

City

State

Zip Code

Telephone No.

Fax No.

Email Address
APPENDIX 2
FORM OF NOTICE OF INTENT TO SUBMIT AN INDEPENDENT FRR PLAN

To: Duke Energy Ohio, Inc. and PJM.

Re: Notice to Submit Independent FRR Plan for [2011-2012] [2012-13] [2013-14] Delivery Year

I, as an authorized representative of the undersigned, hereby notify you that [LSE] has elected to submit an Independent FRR Plan.

LSE represents that it is an LSE which intends to model its load as separate RPM Zone/Areas within the Duke Zone and meets all other requirements in Section 8.1 of the PJM RAA to submit an Independent FRR Plan and become an LSE FRR Entity.

LSE acknowledges that its satisfaction of the conditions set forth in Article 4.2.2 of the LSE Instructions constitutes an irrevocable election to exclude its load from the FRR Plan and that Duke Energy Ohio will not be responsible for procuring Capacity on its behalf and, in particular, Capacity will not be procured on its behalf in the FRR Plan.

LSE agrees to submit its Independent FRR Plan to PJM by December 15, 2011.

The following authorized representatives of [LSE] will be available to meet with you at your convenience to provide any other information you request in connection therewith: [Authorized Representatives and contact information].

All other communications may be addressed to: [Contact name and contact information]

This notice is the Notice of Intent to Submit an Independent FRR Plan (as such term is defined in the Instructions for Load Serving Entities).

[LSE]
By: ________________________________

Name: ________________________________
Title: ________________________________